



L. JOYCE HAMPERS  
COMMISSIONER

# *The Commonwealth of Massachusetts*

*Department of Revenue*

*Lowell Saltonstall Building,*

*100 Cambridge Street, Boston 02204*

January 4, 1982

You have requested a ruling as to the Massachusetts tax consequences of the conversion of the ("Association") from a federal mutual savings and loan association to a federal stock savings and loan association.

The Association is a member of the Federal Savings and Loan Insurance Corporation ("FSLIC") and is subject to the rules and regulations of the Federal Home Loan Bank Board ("FHLBB").

As a mutual savings and loan association, the Association has no capital stock. Instead, the proprietary interest in the reserves and undivided profits of the Association belong to all of its savings depositors as evidenced by savings certificates or passbooks. An Association savings depositor is entitled to interest on the depositor's account balance that is declared and paid by the Association. In addition, an Association depositor has the right to share pro rata, with respect to the amount in his savings account as a fraction of the sum of all savings accounts of the Association in any liquidation proceeds distributed in the event the Association is ever liquidated. Voting rights in the Association are held by its savings depositors and borrowers with each borrower being entitled to one vote as a member of the Association and each savings depositor being entitled to one vote for each \$100 or fraction thereof deposited in a savings account. All of these interests of the Association savings depositors cease when a depositor closes the account with the Association.

January 4, 1982

In order to stimulate growth and expansion of the Association through the raising of additional capital the board of directors of the Association adopted a plan of conversion whereby the Association will convert itself into a federal stock savings and loan association ("Stock Association"). The conversion will be accomplished pursuant to the rules and regulations of FSLIC and FHLBB. It will be subject to the approval of the FSLIC, FHLBB and an affirmative vote of the majority of the eligible votes of the association members.

Pursuant to the plan of conversion, the Stock Association will issue 300,000 shares of common stock. The aggregate purchase price at which all shares will be offered and sold will be equal to the fair market value of the Association based on an independent appraisal. The selling price of each share of stock will be determined by dividing such fair market value by the number of shares to be issued. The Stock Association common stock will be sold to qualified purchasers pursuant to nontransferable subscription rights. The nontransferable subscription rights will be offered without payment therefor on the basis of five preference categories established in accordance with the regulations of the FSLIC and FHLBB. The groups in order of priority are as follows: (1) persons who held qualifying deposits on December 31, 1979 ("eligible account holders"); (2) persons who held deposits on March 31, 1981 ("supplemental eligible account holders"); (3) all other members of the Association; (4) directors, officers and employees of the Association but limited in amounts to 21 percent of the total offering of shares; (5) an additional offering of nontransferable subscription rights to the above four groups equal to 3/10 of one percent of the total number of shares offered. Any remaining balance of unsubscribed-for stock will thereafter be made available to the public at the same offering price.

After the Association converts itself to the Stock Association, all voting rights not attributable to the stock of the Stock Association will expire. A liquidation account will be established in an amount equal to the net worth of the Association as of the time of the conversion. While the establishment of the liquidation account will not operate to restrict Stock Association's use of its net worth, each account holder who maintains a savings account in the Association at the time of conversion will have an interest in a portion of the liquidation account balance. This interest constitutes a right to receive an amount representing the depositor's interest in the net worth of the Association at the time of the conversion before any liquidating distribution can be made with respect to common stock. An interest in the liquidation account will never be increased. It will however, be decreased to reflect

January 4, 1982

subsequent withdrawals from a depositor's account that reduce the amount of the depositor's account below the amount in such account at the time of conversion.

The conversion will not interrupt the business of the Association and its business will continue as usual. Each depositor will retain a withdrawable savings account or accounts equal in amount to the withdrawable account at the time of conversion. The Stock Association will continue its membership in the FSLIC and will remain subject to the regulatory authority of the FHLBB.

The Association has received a ruling from the Internal Revenue Service which holds, inter alia, that the change in form of operation of the Association from a federal mutual savings and loan association to a federal stock savings and loan association will constitute a reorganization within the meaning of section 368(a)(1)(F) of the Internal Revenue Code; that no gain or loss will be recognized to the Association as a result of such conversion; and that the Association and the Stock Association will each be "a party to a reorganization" within the meaning of section 368(b).

Individual residents of Massachusetts are subject to taxation, under Massachusetts General Laws Chapter 62, on their Massachusetts gross income less certain deductions and exemptions. Massachusetts gross income is federal gross income with certain modifications not here relevant. (G.L. c. 62, s. 2(a)).

The Association is subject to taxation under General Laws Chapter 63, Section 11.

Based on the foregoing, it is ruled:

1. No gain or loss will be recognized by the eligible account holders and supplemental eligible account holders of the Association upon the constructive issuance to them of withdrawable savings accounts in the Stock Association in the same dollar amount as their savings accounts in the Association plus interests in the liquidation account of the Stock Association as described above in constructive exchange for their savings accounts in the Association.

2. The basis of the savings accounts in the Stock Association constructively received by the eligible account holders or supplemental eligible account holders of the Association will be the same as the basis of their savings accounts in the Association constructively surrendered in exchange therefor. The basis of the interests in the liquidation account of the Stock Association received



January 4, 1982

by the eligible account holders and supplemental eligible account holders will be zero.

3. No gain or loss will be recognized by the eligible account holders or supplemental eligible account holders upon the distribution to them of the nontransferable subscription rights to purchase shares of stock in the Stock Association.

4. No taxable income will be realized by the eligible account holders or supplemental eligible account holders as a result of the exercise of the nontransferable subscription rights.

5. The basis of the nontransferable subscription rights will be zero. The basis of the common stock of the Stock Association to its shareholders will be the purchase price thereof. The shareholders holding period will commence upon the exercise of the subscription rights.

6. No gain or loss will be recognized to the Association or the Stock Association as a result of the proposed conversion.

7. The assets of the Association will have the same basis in the hands of the Stock Association as in the hands of the Association immediately prior to the conversion. The holding period of the assets of the Association to be received by the Stock Association will include the period during which the assets were held by the Association prior to the conversion.

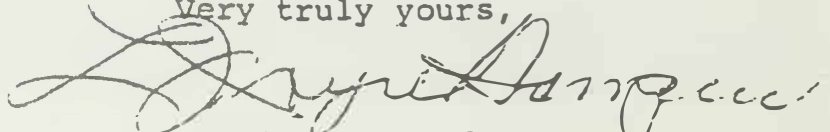
8. No gain or loss will be recognized to the Stock Association on the receipt of money in exchange for shares of the Stock Association's common stock.

9. The creation of the liquidation account on the records of the Stock Association will have no effect on the Association's or the Stock Association's net operating income.

10. The part of the taxable year of the Association before conversion and the part of the taxable year of the Stock Association after the conversion will constitute a single taxable year of the Stock Association.

11. The Stock Association will succeed to and take into account the net operating income of the Association as of the date of the conversion.

Very truly yours,



Commissioner of Revenue

WJH:JJW:mf